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TAGS: [EAID](#) [ECON](#) [ENRG](#) [PGOV](#) [PREL](#) [YI](#)
SUBJECT: KOSOVO: COM ADVISES ENERGY MINISTER TO MAINTAIN
RELATIONSHIP WITH WORLD BANK

REF: 06 KOSOVO 545

Classified By: COM Tina Kaidanow for reasons 1.4 (B) and (D).

11. (C) Summary. After hearing the World Bank's proposal (described by a World Bank team visiting Kosovo the week of March 26) to suspend temporarily its involvement in the multi-billion dollar Kosovo C project, COM told Minister of Energy and Mining Ceku to mend relations with the Bank in order to continue cooperation in the energy field. She emphasized that it was not in Kosovo's interest to break relations with the Bank, especially during the ongoing final status process and in advance of a donors conference, which the Bank is to co-organize. While COM listened with sympathy to the Minister's frustrations about the World Bank, she noted that he must find a way to work and cooperate with the Bank and not antagonize it with unhelpful statements or uncoordinated actions. After COM's strong prodding, Ceku agreed to write a letter to the Bank making clear that the PISG will not conduct further actions on Kosovo C without the Bank's transaction advisor in place, and would respect the agreement between the Bank and the PISG on energy sector development policy. The Minister has done the right thing, but we fear continuous conflict between the Bank and Kosovo on the energy sector if the Bank continues its unremitting policy of delay and obstruction. End Summary.

COM URGES ENERGY MINISTER TO IMPROVE RELATIONS WITH THE WORLD BANK

12. (C) On April 2 COM, USAID Director and econoff met with Ethem Ceku, the Minister of Energy and Mining (MEM), to urge him to make peace with the World Bank in order to continue their cooperation on the multi-billion dollar energy sector development project known as Kosovo C. The April 2 meeting followed a two-hour meeting between COM and Minister Ceku on March 26, in which she urged him to avoid any rupture with the Bank at the upcoming March 28 Kosovo C Project Steering Board meeting and told him there would be no USG support for such a break. Ceku absorbed COM's advice but chose anyway to complain about the Bank at the PSC meeting, venting his frustrations with the Bank's failure to secure a transaction adviser (promised initially for October 2006) and other perceived delays in the process.

13. (C) At the April 2 meeting, COM told Ceku that his March 28 comments directed against the World Bank at the PSC

meeting had been extremely unhelpful and exacerbated an already strained relationship. She noted that in all likelihood, word of his criticism at the PSC meeting and his threat to sever ties with the Bank had immediately gotten back to the Bank's headquarters (despite the fact that the PSC ultimately agreed to keep the project intact), sparking Bank officials to take preemptive action by threatening a suspension of the Kosovo C project due to alleged "irregularities" in the MEM's actions regarding the tender. The COM noted that while the USG strongly disagreed with any proposed delay in the Kosovo C project, cooler heads must prevail and the PISG must improve its relationship with the Bank. The importance of this relationship was especially salient, she added, given the ongoing final status process and the donors conference which the Bank will co-organize with the European Commission -- at which Kosovo might receive as much as USD two billion in pledges. The COM told the Minister firmly that Kosovo must take no further action directed at the four short-listed consortia for Kosovo C prior to the arrival of the Bank's transaction advisor, and must respect the letter of energy sector development policy to avoid negative spillover in other areas, particularly the development of the donors conference.

MINISTER CEKU FRUSTRATED WITH WORLD BANK'S INVOLVEMENT IN KOSOVO C AND ENERGY SECTOR

14. (C) Minister Ceku expressed deep frustration with the Bank, noting that it has not fulfilled its commitment to send the transaction, legal and environmental advisors according to timeline established by the Ministry and the Bank in June 2006 (reftel) for the Kosovo C project. He complained that the Bank seems intent on undermining the PISG's efforts to improve the energy sector, including unbundling the Kosovo Energy Corporation (KEK), rehabilitating the excavators, and

awarding a mining license for Sibovc mine -- all of which were well beyond the scope of the Kosovo C project. Ceku noted with some bitterness that the World Bank believes its transaction advisor should be involved in nearly every aspect of the energy sector, yet has delayed its involvement in the project and impeded Kosovo's progress. COM sympathized with the Minister's concerns, emphasizing the USG view that the process must move forward in a timely way for the good of Kosovo. Nevertheless, she insisted, he must find a way to work with the Bank and avoid action they would perceive as provocative or uncoordinated. COM assured Ceku that the USG will stay engaged in this process to help it move forward as quickly as possible.

COM CONVINCES CEKU TO SEND LETTER TO REAFFIRM KOSOVO'S COMMITMENT TO COOPERATE WITH THE BANK

15. (C) COM told Ceku that it was vitally important that he send a letter to reaffirm Kosovo's commitment to cooperate with the World Bank. The letter, she advised, should reaffirm his promise that the PISG will not conduct further actions on Kosovo C outside the purview of the soon-to-arrive transaction advisor and would respect the agreement between the Bank and the PISG on energy sector development policy. Ceku agreed to send such a letter as soon as possible. (Note: The letter was delivered as promised to the Bank's Pristina office on April 3, with a text in line with COM's guidance.)

16. (C) Comment: We will continue to work closely with the PISG, and in particular Minister Ceku, to ensure that Kosovo does not overtly antagonize the World Bank. Although his initial, emotional reaction to the continuing frustrations with the Bank was to sever ties, Ceku understands that such a move would not be in Kosovo's best interests. At the same time, we cannot help but be dismayed at the Bank's attitude toward Kosovo C and the Minister himself. The significant delays in the project frankly lie more at the hands of the World Bank than anywhere else; we have both economic development and commercial interests in moving the project forward as quickly as possible, and we fail to see how a further, long-term hiatus in the process will do anyone any good -- Kosovo, the U.S. or the Bank itself. Post is

grateful for continued Washington engagement in this issue, and we believe that a show of interest from Washington to the Bank will help them undertake a more objective review of their responsibilities towards Kosovo and the damage that will result if they once again put the brakes on this critical project. End Comment.

[17](#). (SBU) Post does not/not clear this message for release to UN Special Envoy Ahtisaari.
KAIDANOW